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FISCAL IMPACT STATEMENT

LS 6206 **NOTE PREPARED:** Jan 8, 2010
BILL NUMBER: HB 1004 **BILL AMENDED:** Jan 7, 2010

SUBJECT: Assessed Value of Homesteads and Farmland.

FIRST AUTHOR: Rep. Grubb **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: ___**GENERAL**
DEDICATED
FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) *Biennial Adjustments:* This bill requires trending adjustments to real property assessments every two years instead of annually.

Farmland: In making the annual calculation of the base rate for the assessment of agricultural land, this bill requires the Department of Local Government Finance (DLGF) to use an adjusted six-year average that eliminates the highest and lowest values determined for the six-year period.

Circuit Breaker: The bill applies a property tax credit to limit property tax liability on real property based on the change in the annual average Consumer Price Index (CPI). It requires the Budget Agency to determine and give notice of the CPI factor.

The bill excepts from eligibility for the credit taxes based on certain changes relating to the real property, taxes imposed after being approved by the voters in a referendum or local public question, taxes payable in the first year after certain transfers of title, taxes that result from the correction of an error, and taxes attributable to the elimination of or a reduction in the amount of a tax abatement deduction. It specifies how the credit applies if parcels are combined.

This bill also allows an appeal to the Distressed Unit Appeal Board (DUAB) by certain political subdivisions affected by the credit and it specifies the relief that board may authorize.

Effective Date: January 1, 2011.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Biennial Adjustments:* Under current law, real property is fully reassessed every five years. The next general reassessment takes effect with taxes payable in 2013. Annual adjustments to real property values are applied each year in which a general reassessment does not take effect.

Under this bill, the first adjustment after the general reassessment would be effective for taxes payable in 2015. Adjustments would follow for taxes payable in all odd-numbered years without a general reassessment, rather than in every year without a general reassessment.

Local expenditures for "trending" would be reduced under this bill. The cost for many associated tasks, such as the gathering of sales data, would continue each year. However, the expenditure for tasks like the computation of market values could be reduced by as much as one half.

According to sample county data provided by the DLGF, counties may be paying an average of $1.44 per parcel for "trending" services. Based on this average, for 3.5 million parcels, the total cost could amount to about $5 M per year. Some counties contract this work, while others perform it in-house. Counties would save at least a part of the $5 M cost estimate in years with no adjustments.

Explanation of Local Revenues: (Revised) *Biennial Adjustments:* Under this provision, there would be two years in each five-year assessment cycle where property values would be unadjusted. In some cycles, the biennial adjustments would come in both the years immediately prior to, and immediately after, the general reassessment. In other cycles, there would be no adjustment in either the years immediately prior to, or after, the general reassessment.

In the years without reassessment or adjustment, tax rates would increase as levies increase. Shifts that may have occurred because of differing rates of change between assessments of different real property types or between real and personal property would be delayed. The basis for each taxpayer's circuit breaker amount would not change in these years meaning that the circuit breaker cap would not change. In areas where the circuit breaker has been triggered, this would result in additional savings for taxpayers and additional losses for taxing units.

In a year with a reassessment or adjustment, this provision would have no impact, as compared with tax liabilities and circuit breaker losses under current law. In years immediately after a year without a reassessment or adjustment, assessment changes would incorporate two years worth of growth and tax rates would remain fairly flat. Delayed tax shifts would be realized along with current year shifts. Each taxpayer's circuit breaker cap would reflect the two-year growth.

Farmland: Under current law, the assessed value of real property is adjusted each year to reflect market changes. Each year, the base rate for agricultural land is set by the DLGF, based on a six-year rolling average of the capitalization of net cash rents and net operating income for farmland. Beginning with taxes payable in 2011 under this bill, both the high and low years in the six-year average would be dropped.

The base value per acre of farmland is $1,250 for taxes payable in 2010, and is currently estimated at $1,400 for 2011, $1,690 for 2012, and $1,650 for 2013. Under this proposal, the base rate would be $1,400 for 2011 (no change), $1,600 for 2012, and $1,520 for 2013.

The reduction in the farmland base rate in this proposal would result in a smaller tax base than under current law. This would lead to a higher tax rate. The statewide average tax rate per $100 AV would increase by an estimated $0.0092 in 2012 and $0.0126 in 2013.

Circuit Breaker: Beginning with taxes payable in 2011 under this provision, an additional circuit breaker credit would be granted to real property taxpayers if the annual growth in net tax bills would otherwise exceed the previous year's growth in the Consumer Price Index (CPI). The portion of a tax bill devoted to a referendum-approved levy would not be subject to the CPI-based growth cap. Tax bills for properties that have changed title (other than death of a spouse or other co-owner, or in a case of divorce) would not be subject to the CPI-based growth cap in the year that title is passed. For these properties, the tax in the year that title passes becomes the new base for future CPI-based growth cap calculations. In the case of an abatement that existed before 2010, property taxes attributable to the expiring portion of an abatement would not be limited by the CPI-based growth cap.

Under this provision, taxing units could petition the DUAB for relief from the CPI-based growth cap. Relief, if granted, would consist of changing the factor applied to the previous year's tax bill from the CPI growth factor to another factor. This type of relief would allow tax bills to increase beyond the CPI rate and would reduce the loss to the affected taxing unit.

The annual change in CPI is currently estimated at +1.55% in 2010 (2011 tax bills), +2.12% in 2011 (2012 tax bills), and +2.31% in 2012 (2013 tax bills).

Statewide, net property taxes would be lower under this bill than under current law for all real property types. The CPI growth caps would cause a reduction in TIF proceeds, but the tax rate increases beginning in 2012 would increase overall TIF dollars. Results would vary by TIF district. Circuit breaker credits would increase each year. The table below contains estimates of these changes.

Estimated Net Property Tax and Circuit Breaker Changes						
Net Tax by Property Type	**2011**		**2012**		**2013**	
Homesteads	-37.3 M	-2.1%	-21.0 M	-1.1%	-38.2 M	-2.0%
Farmland	-20.3 M	-7.3%	-57.5 M	-18.0%	-41.3 M	-13.4%
Other Residential	-1.3 M	-0.2%	-0.8 M	-0.1%	-3.4 M	-0.4%
Commercial Apartments	-0-	-0-	+0.1 M	+0.1%	+0.1 M	+0.1%
Ag_Business (Ex. Farmland)	-0-	-0-	+1.0 M	+1.0%	+1.4 M	+1.4%
Other Real Property	-0.5 M	-0.0%	+2.4 M	+0.1%	+3.4 M	+0.2%
Personal Property	-0-	-0-	+2.3 M	+0.3%	+3.3 M	+0.4%
TIF Proceeds	-0.1 M	-0.0%	+0.5 M	+0.1%	+0.7 M	+0.2%
Circuit Breakers	+59.3 M	+12.4%	+73.9 M	+16.2 %	+74.8 M	+17.5 %

<u>State Agencies Affected:</u> DLGF; State Budget Agency; Distressed Unit Appeals Board.

<u>Local Agencies Affected:</u> County and township assessors; Local taxing units impacted by circuit breaker credits.

Information Sources: *Consumer Price Index, All Urban* historic series and forecast series, Global Insight; *Farmland Assessment For Property Taxes*, Larry DeBoer, Purdue University, http://www.agecon.purdue.edu/crd/localgov/Topics/Essays/Prop_Tax_FarmLand_Asmt.htm.

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